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Weekly Summary

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April 22, 1977

The WEEKLY SUMMARY, issued every Friday morning by the Current Reporting Group, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Regional and Political Analysis, the Office of Economic Research, the Office of Strategic Research, the Office of Scientific Intelligence, the Office of Weapons Intelligence, and the Office of Geographic and Cartographic Research.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly,

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Asia

PAKISTAN

1-3

Although violence continues and no compromise is in sight between Prime Minister Bhutto and the opposition groups trying to force his ouster, the Pakistani military at present appears reluctant to intervene.

Major demonstrations by opposition groups are continuing in many cities, and Bhutto's supporters have launched sizable counterdemonstrations. As many as 200 persons reportedly have died in the disorders since they began some six weeks ago.

A general strike called by the opposition late this week in Karachi—Pakistan's largest city—and other cities in Sind Province has apparently been successful. The strike was to be extended on April 22 to the Punjab, Pakistan's most populous province. The government on April 21 established martial law in Lahore, the capital of Punjab Province, and in Karachi.

The reconvening of the National Assembly, scheduled for April 26, is likely to be an occasion for further large demonstrations against Bhutto. The opposition does not accept the legitimacy of the Assembly because of apparent widespread fraud in the March 7 election, in which the Prime Minister's Pakistan People's Party won over 150 of 200 Assembly seats. Bhutto called the Assembly session presumably because he hopes it will show that he can still conduct government business.

The nine-party opposition Pakistan National Alliance continues to reject Bhutto's suggestions for a compromise. In his latest proposal, the Prime Minister offered to hold new provincial assembly elections, and if the opposition won these, to hold a new national election. The opposition remains insistent that Bhutto



must resign and that a new national election then be held.

Over the past week, Bhutto has taken several steps aimed at increasing his public support and splitting his opponents. In an effort to win backing from conservative Muslims, he announced an immediate ban on liquor, nightclubs, and gambling, and promised to create a council of Islamic religious leaders to draft a code of moral conduct for Pakistanis. His government also has lifted press censorship and announced substantial wage boosts for the armed forces, police, and civil servants. None of these thinly veiled bids for support seems likely to have a major impact on the political situation.

Leaders of the armed forces are keeping a close watch on the situation. The US embassy believes that the army does not want to take over the government and that its leaders would prefer a political solution.

The army may find it difficult to hold back for very long, however. Options that may be under consideration include a brief period of military rule followed by an election, an army-supported assumption of power by figurehead President Chaudhry, or a vote by the National Assembly to replace Bhutto.

CHINA

7-8-9

Several recent articles in the Chinese press suggest that some of China's military leaders may be concerned that current economic plans do not adequately provide for military modernization.

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Debate over defense spending has simmered since late last year when Peking began planning an economic recovery program that seemed to reduce the military's share of the national budget. Authoritative commentaries at the time argued that benefits to military modernization would flow from the increased investment planned for the civilian economy. Only two military regimes—Canton and Wuhan—explicitly supported the argument, however.

The new articles, arguing for accelerating the pace of military modernization, are attributed to low-level military units. Two of the articles are from units of the Canton Military Region, raising questions about the position on this issue of its commander, Hsu Shih-yu. Hsu is a member of the Politburo and has apparently become more influential in recent weeks. A vice minister of defense recently added his authority to the argument by expressing doubt that China's armed forces could fulfill their role against a Soviet attack.

If more of this kind of commentary appears publicly, particularly with authoritative attribution, it would suggest that China's military leaders intend to argue forcibly for additional resources. Party chairman Hua Kuo-feng would then be faced with a difficult choice between cutting into civilian economic programs or standing fast against a military leadership to which he is largely indebted for his position.

The debate over military modernization is essentially a battle for allocation of scarce resources to military and civilian sectors of the economy. It is resurfacing at the same time that the regime is preparing for a major conference this month on "economic" modernization. The conference may touch on the issue of military spending, but seems more likely to focus on the problems of administration and management of civilian industrial enterprises. (*An analysis of the forthcoming economic conference appears in the feature section of this publication.*)



Elderly woman casts her ballot in government-sponsored referendum April 17 AP

PHILIPPINES 11-12

A government-sponsored referendum held on April 17 in 13 southwestern provinces will satisfy neither the area's autonomy-seeking Muslims nor their various Arab supporters. Unless President Marcos and the Muslims reach some realistic compromise, which seems unlikely in the near term, the cease-fire between government forces and Muslim rebels that has been in effect since December could break down.

The questions put before the voters were carefully designed to support Manila's contention that a majority of the people in the 13 provinces do not want Muslim rule. About 90 percent of the vote went in favor of the government's position. The Muslims never agreed to the referendum and generally boycotted the vote, assuring a government victory even in the five provinces where they have a substantial majority.

Marcos has had to cope with strong pressure on behalf of the Philippine Muslims from Arab countries, especially Libya, which has long provided political and material support to the rebels. In talks held in Tripoli in recent months, Marcos agreed, through representatives, to establish an autonomous zone, but in-

sisted on holding a subsequent popular referendum in the 13 provinces. Marcos apparently sought to use the referendum as a device for watering down the autonomy of the proposed zone.

Arab representatives, including the Libyan foreign minister and the Saudi director of Islamic affairs, arrived in Manila this week. They are likely to reject the results of the referendum and press Marcos to get started with the formation of a regional government in the area with substantial Muslim participation. The Arab leaders would like to show some progress on this issue before the Islamic Conference meets next month.

Marcos apparently now hopes to buy off Philippine Muslim leaders with positions in such a regional government, which will be nominally autonomous but in fact will have few if any real responsibilities. Marcos has offered a post to the leader of the Muslim political front.

Essentially, Marcos is striving to give some appearance of meeting Muslim demands while in fact avoiding them. Muslim grievances over land rights and the lack of economic self-rule will not be satisfied easily. Marcos begins a state visit to Japan next week, ensuring an even longer delay in implementing settlement of the dispute.

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Middle East

ISRAEL

15-17

Prime Minister Rabin's abrupt withdrawal as head of the Labor Party two weeks ago, after it was revealed that he had maintained unauthorized bank accounts in the US, now seems unlikely to damage the party seriously in the election next month. The change of leadership may even work to Labor's advantage.

The legal charge against Rabin is not considered a serious offense by Israelis, among whom the practice is widespread. Rabin's quick admission of guilt and rapid action in stepping aside have created

a wave of public sympathy that is likely to diminish, and perhaps negate, the political gains that leaders of the conservative Likud opposition and Yigael Yadin's Democratic Movement for Change hoped to reap from the scandal.

The Labor Party's ability to close ranks rapidly around its new leader, Defense Minister Peres, and to maintain its alliance with the left-wing Mapam party, has also surely been a disappointment to its opponents. They had anticipated that the accession of Peres, who has long been identified with hard-line positions on Arab-Israeli issues, would split the Labor Party and cause Mapam to bolt the alliance.

Likud and the Democratic Movement now face in Peres a more dynamic and politically more adept leader than Rabin,

and a man untainted by any hint of corruption. Peres' quick and smooth takeover of the party leadership should enable him to make a strong case to the electorate that Labor is capable of reforming itself and will seek to introduce broad political and social changes. This should give Peres a better chance than Rabin to counter the reformist appeal of the Democratic Movement and Likud.

In particular, Peres may be able to attract back to Labor some of its traditional supporters, who became disillusioned with Rabin and defected in recent months to Yadin's party. At the same time, Peres should be better able to retain the allegiance of Labor "hawks," who distrusted Rabin and might have been tempted to defect to Likud.

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Prime Minister and Mrs. Rabin

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Prime Minister Tindemans

Western Europe

BELGIUM 48-49

Prime Minister Tindemans' Social Christian Party made substantial gains in the national election held on April 17. Tindemans will begin formal consultations on the formation of a new government next week, although a new coalition may not be agreed upon for some months. In the meantime, he will head a caretaker government.

Tindemans' coalition partner, the Liberal Party, held its own as did the Socialist Party, the second largest in the country. The small linguistic parties in Flanders and Wallonia did poorly.

Tindemans will probably try to form a two-party coalition with the Socialists. His Social Christian Party draws its strength from Catholic Flanders in the north; the Socialists are the strongest party in French-speaking Wallonia in the south. A coalition of the two parties would give the government strength in both of these areas as well as in Brussels and its suburbs. Such a coalition would have a two-thirds majority in parliament.

An attempt to form such a coalition after the last election in 1974 failed, but if

Tindemans expects to make any progress on Belgium's thorny linguistic and economic problems, he must have a majority that is strong in all three areas of the country. The election last weekend was necessitated largely because of the continuing rancorous conflict between Dutch-speaking Flemings in the north and French-speaking Walloons in the south. All major national questions requiring policy decisions during the past few years degenerated into squabbles over regional differences.

Should the negotiations with the Socialists fail, the strengthened Social Christians could put together a coalition with the Liberals. Such a government would be weak in both Wallonia and Brussels.

Economic

WHEAT 76-83

Canada and Australia, the world's second and third largest wheat exporters after the US, are again showing interest in a stabilization program for wheat export prices. The two countries are exchanging views with other major producers in hopes

of presenting a common front at the meeting this summer of the International Wheat Council, where a producer-consumer price stabilization agreement is likely to be discussed.

Declining export prices, together with growing storage costs because of a buildup in grain stocks, have renewed producer interest in stabilizing export prices. Last year's record international wheat harvest and an estimated 10-percent reduction in world import demand lowered export prices to less than half the peak price in 1974.

Wheat farmers in Canada and Australia are pressing their governments to insure them against declines in real income. Last year, real farm incomes fell in both countries because inflation pushed up operating costs about 10 percent while wheat export prices declined. Without government action, the income squeeze will continue this year.

Canada and Australia apparently agree on the general framework of an international wheat accord. At discussions in the International Wheat Council last year, the two governments favored linking price arrangements to a buffer stock policy. Both indicated that a "trigger price" mechanism would be the most acceptable method of determining when stocks should be bought or sold.

Both governments are wary of building large international stocks, because these would dampen prices and production. The two countries also are pushing for a system in which grain producers and consumers would share storage costs. As the international wheat market now works, the cost of maintaining grain reserves falls largely on the leading exporters.

Prospects for negotiating an international wheat agreement are better than they have been in several years. A common front by the major exporters would ensure serious discussions on an agreement at the midyear International Wheat Council meeting. The prospect of stable prices and more secure access to supplies will make negotiations appealing to importing countries.

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Africa

ZAIRE 24-31

Government forces—their morale somewhat bolstered by the recent arrival of Moroccan troops—appear to have begun to perform more effectively against the Katangan rebels who invaded Shaba Region from Angola last month.

The Zairians, who previously usually fled when rebels approached, apparently offered greater resistance in contacts with invaders near Zairian forward positions at Kanzenze and Nasondoe late last week.

This week, Zairian forces reportedly launched a modest counterattack from the Kolwezi area. A battalion-size task force moving along the rail line was reported in midweek to have crossed the Lufupa River; a similar force had advanced slightly along the main road from Kolwezi to Nasondoe.

Some Moroccan troops apparently are attached to the two Zairian task forces; others are acting as a reserve force. Moroccan troops stationed in Kolwezi reportedly are guarding dams and bridges in that area.

The Zairian air force continues to be



largely ineffective; the US defense attaché reports that some pilots are refusing to perform their missions, and several errors, such as the recent bombing of Zambian territory, have occurred. According to Italian technicians, three additional ground-attack aircraft should be operational next week.

The continuing military activity in southern Zaire is placing a growing strain

on the country's limited logistic capability. Only one or two of the four C-130 transports that were operational when the conflict began are still flying, and there is currently a backlog of supplies in Kinshasa earmarked for the south. (An assessment of the broader implications of the foreign support Mobutu is receiving appears in the feature section of this publication.)

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32/33 Rhodesia: Smith Turns Aside Right-Wing Challenge to His Leadership

Prime Minister Smith turned aside a challenge to his leadership by dissident right-wing members of his Rhodesian Front at a special party congress this week. The congress authorized Smith to try to negotiate a settlement with black nationalists.

Smith won passage of two crucial resolutions, apparently by comfortable margins. The first stated that the congress "accepted the need for a settlement and urges the government to ensure that the rights of all communities are meaningfully guaranteed."

The second resolution authorized

Smith to negotiate a settlement. This gives him a free hand to carry on discussions with nationalist groups in Rhodesia on an "internal solution" and to respond to British Foreign Secretary Owen's proposals for a new Geneva-style settlement conference. Owen returned home this week after visiting several southern African countries, including Rhodesia.

Twelve Rhodesian Front members of parliament had sought to challenge Smith at the congress. They asserted that a measure enacted last month providing for a modest liberalization of the Land

Tenure Act had violated the party's principles. The dissidents represent a hard-line faction in the party that has long been dissatisfied with Smith's leadership and believes the government should not negotiate with "reasonable" blacks until the Rhodesian guerrillas have been completely defeated.

In seeking the congress' approval to negotiate, Smith asked it to suspend the party's policies and principles in order to show good faith in negotiations. The resolution adopted, however, urged the government to "strive to abide" by the party's policies.

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FISHING PROBLEMS

The recent worldwide proliferation of 200-mile fishing zones has created serious difficulties for the USSR. A major part of the total catch of the Soviet fishing fleet, the world's largest, has been coming from waters now included in such zones.

Sharply reduced catches could affect the diet of Soviet citizens; in 1975, fish accounted for 15 percent of the average citizen's consumption of animal protein. Reduced catches also would affect the availability of protein supplement for livestock feed as well as fertilizer supplies and fish for export. Fish exports earned roughly \$100 million in hard currency in 1975.

Lower catches are not the only problem. Unfamiliarity with new fishing regulations and enforcement procedures will—at least in the near term—make the Soviets more likely to violate foreign fishing zones. They face the prospect of incurring heavy fines in addition to having their vessels and catches seized.

The recent seizure of a Soviet trawler and detention of a factory ship by the US coast guard highlight the problems the Soviets will face until their captains abide by the new fishing regulations. The trawler was seized for catching more than its quota of a particular specie, while the factory ship was detained because it held several species prohibited to it by US regulations.

Soviet authorities are clearly concerned. Before the recent seizure, a fisheries official told a US embassy officer that his government would make every effort to prevent incidents and would take strong action against Soviet ships and captains that violate the US

regulations. After the seizure, this point was reinforced by an article in *Izvestia*, which admitted that Soviet fishing vessels had violated the US 200-mile zone.

The amount of real effort the Soviets put into attempting to reduce violations of other countries' fishing zones, however, will probably depend mainly on the strength of the enforcement measures Soviet fishing vessels encounter. Wherever possible, Soviet sea captains can be expected to continue their operations in US and other foreign fishing waters in order to meet Moscow's annual plans, which call for increased fish catches and consumption and for improved foreign exchange earnings through fish exports.

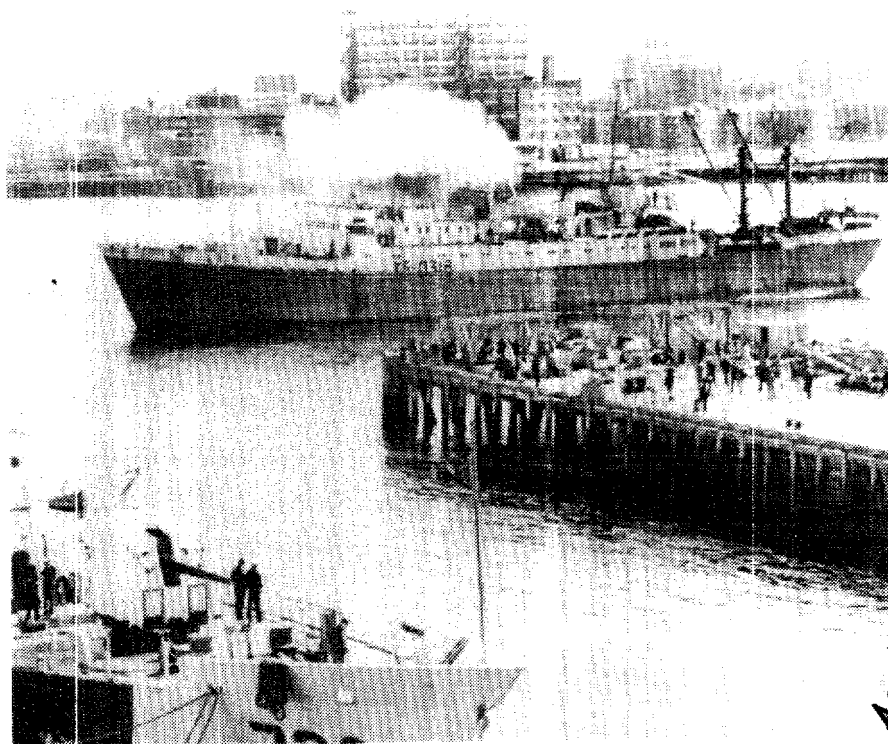
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AFGHANISTAN-USSR 46-47

Afghan President Daoud visited the USSR from April 12 through 15. The Soviets probably view the major benefits of the visit as Daoud's qualified backing of their Asian security ideas and his willingness to sign a longer term economic agreement with the USSR. Daoud, for his part, probably was pleased with Moscow's public endorsement of recent Afghan constitutional changes and of Kabul's efforts to improve relations with Pakistan.

The USSR has been trying since 1969 to create interest in establishing a collective security system in Asia, but has had little success. The language Daoud agreed to in the communique last week is not as specific as that which he accepted during his last trip to Moscow in 1974, but the Soviets probably will point to it in claiming that Asian acceptance of the collective security idea is growing.

The new Soviet-Afghan economic agreement is to last for 12 years. It calls for expanding economic ties and examining the prospects for closer cooperation on certain projects. Moscow, to help improve its own planning, has in recent years been promoting such longer term agreements with Western and third-world



Soviet fishing trawler seized by US Coast Guard prepares to dock in Boston harbor

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countries with which it has extensive economic dealings.

The Afghan government has been concerned that Moscow might cut back its military and economic aid because of

Daoud's moves during the past several years to reduce leftist influence in Afghanistan. Afghanistan has long been one of the bigger recipients of Soviet economic and military assistance. The

Soviets embarked on a new program to modernize the Afghan military shortly after the coup that restored Daoud to power in 1973. [REDACTED]

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Western Hemisphere

CANADA 62-63

Two foreign groups have decided to cancel planned exploratory drilling programs off Canada's Atlantic coast this summer because of a continuing dispute between provincial and federal authorities over offshore oil and gas rights. The decision will halt about half of all oil and gas exploration off the Canadian east coast this year.

The two groups, a US-French consortium and a US-UK consortium, made their decision after Newfoundland refused to guarantee their exploration rights should the province gain jurisdiction over the area. The consortiums also failed to obtain assurances that the province's royalty regulations will not be excessive.

Since the late 1960s, the federal government and the governments of the four Maritime provinces—New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland—have been contesting jurisdiction over offshore oil and gas and the division of resource revenues. Earlier this year, the federal government reached an agreement on revenue sharing with three provinces, but Newfoundland is holding out for a better deal. The agreement with the other three provinces does not settle the dispute over jurisdiction and ownership of offshore resources.

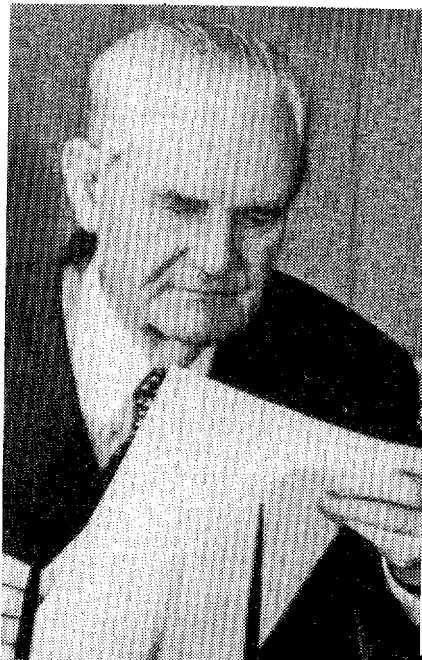
Federal and Newfoundland officials have agreed to take the case to the Canadian Supreme Court. The court is not likely to hear the case until early next year, and both consortiums refuse to resume drilling until the dispute is settled or exploration rights are guaranteed.

At stake is control over one of Canada's most promising areas for oil and gas. According to industry sources, the area has potential reserves of 18 billion barrels of oil and 3.1 trillion cubic meters of gas. Reserves of this size would be about half as large as those located in Canada's arctic regions. [REDACTED]

BRAZIL 50-52 25X1

President Geisel recently issued a series of decrees that will reduce the influence of opposition civilian politicians. The measures are a major departure from Geisel's previous moves, which were aimed at a modest increase in popular participation in government.

Early this month, Geisel invoked ex-



President Geisel

traconstitutional powers to suspend the Brazilian congress for two weeks after it failed to approve a government-sponsored judicial reform bill. Geisel enacted the reform measure last week. It substantially increases and centralizes the authority of the Supreme Court, which is composed of presidential appointees.

Other decrees extend the presidential term—beginning with Geisel's successor—from five to six years and make elections indirect for the state governors and one third of the Senate. These measures virtually ensure that the progovernment party will continue to dominate both the national congress and most state governments.

Geisel almost certainly used the judicial reform issue as a pretext to return to strict authoritarian control. Throughout the past 13 years of successive military governments, moves to give civilians a greater political role have been hesitant and often reversed by drastic extraconstitutional acts and the frequent changing of election rules.

Geisel had gone further than any of his military predecessors to provide for a gradual reinstitution of democratic procedures, but he has now abandoned this approach, apparently as the cumulative result of:

- Growing opposition within the business community to government austerity measures.
- Increasingly strident demands by the opposition party for a return to civilian rule.
- Serious disagreements with the US.

It is not clear what rationale the military government will offer for its continuing hold on power, but the shift to the right domestically could be followed by a more nationalistic posture in foreign policy. [REDACTED]

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The political moderates now in control in China are pushing once again for reforms in economic management that will improve growth rates without substantial increases in investment.

97-100

China: Economic Conference

China's new leadership will hold a major economic conference this month to promote modernization and improved industrial management. Billed as "learn from Ta-ching," the conference will promote the management experiences of China's large Ta-ching oil field, but more importantly it will deal with a number of serious problems that have stood in the way of rapid economic growth.

The political moderates in China have long recognized the need to improve economic management, but the opposition of leftists more interested in political results than economic performance has prevented any major progress in reform for the past decade. In 1975, former vice premier Teng Hsiao-ping-

-drafted new proposals for industrial reform known as the "20 Points." The proposals were designed to cut costs and increase the rate of growth without additional investment. With Teng's ouster a year ago, the "20 Points" were harshly criticized by the left and never implemented.

It has been apparent, however, that the proposals enjoy wide popular, party, and government support. Given the seemingly broad consensus on economic matters within the present moderate leadership, some version of the "20 Points" will probably be promoted at the new "learn from Ta-ching" conference.

The most important issues revolve around:

- The degree of central direction and control over local management.
- The need to impose discipline on the workforce and at the same time retain some form of worker participation in management.
- The amount and kind of material incentives needed to promote production.

Discussions at the conference will underscore problems in agriculture—the basic economic challenge facing China's leadership—but the conference will not dwell on that topic for long as it was given thorough consideration in a special conference last December.

Problems Amid Progress

China's rapid industrial growth over the past decade has masked problems that bear on the long-term economic stability and progress of the country. In 1974, the Chinese first acknowledged serious structural imbalances in the iron and steel industry and inadequate investment in the coal industry. Other industries have less serious but still troublesome deficiencies of a similar nature. Party chairman Hua Kuo-feng recently listed transport and communications and heavy industries that produce fuel, electricity, petrochemicals, iron and steel, and raw and semifinished materials as troubled sectors.

The elimination of structural imbalances and capacity shortages requires changes in investment patterns. It is a long term effort. In the interim, improvements in economic performance will depend heavily on Peking's ability to increase productivity by reducing inefficiencies. This will involve changes in planning

and management—both system-wide and at the plant level—and strengthening the system of worker incentives.

Central Versus Local

During the period of the Great Leap Forward in the late 1950s and again in 1970 in the aftermath of the Cultural Revolution, Peking granted additional authority over economic affairs, especially over industry, to local authorities.

In the decentralization of the Great Leap Forward, more than 80 percent of the enterprises and institutions controlled by the central industrial ministries were transferred to provincial, and sometimes county, control. Once the Great Leap Forward was acknowledged as a disaster, some of this control was returned to the central ministries.

What happened in 1970 is unclear, but a large number of enterprises formerly under the control of central ministries were placed under the joint control of the ministries and local jurisdictions, with the balance of power tipped toward the latter.

By 1975, the moderates in the leadership, and Teng Hsiao-ping in particular, were openly critical of the inability of local party leaders to coordinate the production and distribution activities of key enterprises producing for regional and national markets. Violation of state plans was common. The "20 Points" sought greater authority for the central ministries at the expense of local party committees, but most of these proposals got no further than the discussion stage.

With Teng's dismissal, the measures to strengthen central authority were

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Chinese guide shows foreign visitors a model of the Ta-ching oil field

Hsinhua News Agency

dropped, and the balance of economic power once again tipped toward the localities. Charges by Teng's critics suggest that he sought to restore the order that existed in the mid-1960s, prior to the Cultural Revolution—an order based on a healthy measure of local authority wielded within well-defined bounds and monitored by an assertive central authority.

Recent press articles and radio broadcasts reflect a continuing debate on the subject, and although no firm decisions have yet been made, there are clear indications that more rather than less central control is to be expected. Peking's Maoist legacy, which emphasizes local initiative, could pose an obstacle to the reassertion of strong central control.

Factory Management

The moderates and the left are also at loggerheads over labor force discipline. Over the past few years, leftist attacks on "one-man management" have created chaos in many enterprises—rules and regulations governing work performance were abandoned, political activity and factionalism in factories were intense, and workers came and went as they pleased while managers and their staff, intimidated by the leftists, stayed home.

To remedy the situation, Teng's "20 Points" called for:

- Reinstitution of a strict system of personal responsibility.
- Establishment of "production management command systems" to run each plant.
- Restrictions on the authority of party committees at the plant level.

Worker discipline has improved as a matter of course following the purge of leftist leaders and a decline in factionalism. Regulations governing work responsibilities and performance are being restored, and authority probably will be returned to managers and their staffs at the expense of the party.

A more rational approach to worker participation in management decision-making is also needed. The principle has long been accepted in theory, but the management and staff of industrial enterprises have always resisted sharing their prerogatives with ordinary workers, on management committees or in the planning, accounting, and engineering parts of plant operations. A worker-participation plan supportive of efficient plant management has yet to be worked out in a non-political atmosphere.

Material Incentives

Implicitly if not explicitly, material incentives will be an important issue at the conference. More than a decade of little or no growth in money incomes has taken

its toll on worker morale and affected incentives and productivity. Teng's "20 Points" contained proposals for a normal system of promotion and wage increases each year for a portion of the workforce—all to be based on attitudes, expertise, and performance.

Even without leftist rantings against the evils of material incentives, the moderates will find it impossible to grant more than a token wage increase. The earthquake and political disruptions contributed to an exceptionally poor economic performance in 1976, and the new leadership is under pressure to make up for lost time and complete the five-year plan on schedule in 1980.

Peking has only limited options. A raise in wages would have to be small and concentrated at the lower end of the wage scale. An alternative would be to reinstate bonuses—eliminated during the Cultural Revolution—tied to plan fulfillment.

Hasty decisions, made without taking into account the many politically sensitive facets of the issue, such as rural-urban income differentials, would be sure to cause more problems at a later date. A refusal to grant wage increases or production bonuses, however, would seriously endanger planned increases in productivity—a prospect that Peking can ill afford.

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Prime Minister Soares' political position appears secure for the time being, but Soares—and Portugal's new democratic institutions—will continue to struggle with difficult economic challenges in the months ahead.

107-109 Portugal: Soares' Problems and Prospects

Prime Minister Mario Soares, strongly supported by President Antonio Ramalho Eanes, stands a good chance of remaining in office over the next year or so. He faces tough economic decisions, however, and will have to demand new sacrifices from the Portuguese people.

Soares as a Leader

Soares is the best known of Portuguese leaders, both at home and abroad. At present he eclipses any competition within his Socialist Party and is enjoying the give and take of politics. Soares is, however, a better politician and diplomat than he is an administrator. He is slow to implement policy and has a tendency to put off administrative decisions.

Soares chose to form a minority government when named prime minister last summer. The Socialist Party is the largest in the National Assembly, but has only 41 percent of the seats. Soares, saying he wanted full responsibility in facing Portugal's problems, refused to establish a coalition with either of the other two democratic parties—the centrist Social Democratic Party and the center-right Social Democratic Center, which together control 44 percent of the seats. He feared that a coalition with moderates would drive away the left wing of his own party and dilute his program.

Soares' economic proposals, presented in February, emphasized pragmatism over socialist rhetoric and gained the support of the other two democratic parties. Soares and these parties also agreed on a

common strategy to isolate the Communists. If Portugal gets adequate aid from abroad, Soares can be reasonably confident of remaining in office for at least another year.

His political tenure depends heavily on how well he handles the economic situation and whether he can harmonize the conflicting views of the right and left wings of his own party. If the going gets rough, he may have to form a coalition with one or both of the other major democratic parties.

Role of President Eanes

President Eanes' support for Soares' efforts to install democratic institutions has been extremely useful. But Eanes at the same time represents a potential challenge to Soares' government. The President is also chief of staff of the armed forces, which are determined to maintain stability in the country. In theory, he can summarily dismiss the prime minister with only the consent of the military Revolutionary Council. Except in an extreme emergency, however, Eanes is unlikely to exercise this prerogative without consulting the Assembly.

Since taking office, Eanes has re-imposed professionalism in the armed forces and reduced their role in politics. He has taken precautions to prevent a recurrence of several recent leftist-inspired military protests over living conditions and efforts to politicize the military. He also has contacts among conservatives, so that coup plotting by disaffected rightists is not likely to go undetected.

Eanes recently appointed a deputy chief

of staff and is expected to devote more attention to civilian political matters. Although he has a good relationship with Soares, the President is concerned about the Prime Minister's administrative problems and the slowness of economic recovery. Eanes reportedly had a hand in recent personnel changes in the cabinet and subcabinet that brought more competent people into several key economic ministries.

The President agrees with Soares on the importance of ties with Europe, the US, and NATO, but on domestic matters Eanes' orientation is difficult to determine. He supports the constitution and democratic government, but he is showing more of an inclination to use the considerable power given him in the constitution.

If economic difficulties should cause widespread public protests, Eanes could decide to establish a nonparty government of military men and technocrats supported by the three major democratic parties.

The Communist Threat

The Portuguese Communist Party's potential for mobilizing a considerable portion of organized labor makes it a threat to democratic institutions, despite the fact that it has only 15 percent of the seats in the National Assembly. Communist domination of the General Confederation of Portuguese Workers—the sole national labor confederation—and the Socialists' difficulty in building a rival power base give the Communists the ability to influence

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Prime Minister Soares

AP

public attitudes toward the government's austerity program.

The Communists are also trying to regain influence in the armed forces, but are being forestalled by President Eanes' depoliticization of the military.

The Communist Party pursues an orthodox Moscow line and is actively opposing Soares' austerity program. In a press conference early this month, party leader Alvaro Cunhal strongly attacked the government's economic policies and its application to join the EC.

The Communists do not appear strong enough to make a serious bid to overturn the government now, and Cunhal probably fears that an attempt against the Soares administration would bring about a more conservative successor government that would move more forcefully to curb the party.

Soares, however, recently told the US ambassador that he expects another offensive in May against the government by the Communist-influenced workers and that he is fully prepared for a showdown, which he feels is inevitable sooner or later.

The Economic Question

Economic problems pose the greatest challenge to Soares' government and to

the future of Portugal's fledgling democratic institutions. The economy suffers from serious dislocations, largely brought on by the previous leftist experiments, which will require politically unpopular measures to cure. Portugal is beset by a large balance-of-payments deficit (on the order of 10 percent of its gross national product), high inflation, and high unemployment. GNP fell sharply in 1975, and the economy continues to be sluggish.

Soares argues that Portugal needs sizable loans to tide it over while he gets the economy turned around. Without such aid, he fears the people will not tolerate the severe economic measures that are necessary. Even with such aid, the country faces a long and difficult adjustment period and likely declines in real wages.

Soares realistically regards the low level of Portuguese foreign exchange reserves and the persistent payments deficit as the most immediate concerns. He hopes to obtain a \$1.5 billion medium-term consortium loan proposed by the US. Although under discussion for more than four months, the consortium of lenders has not yet taken shape.

Soares can point to a long series of measures that his government has pushed



President Eanes

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through or proposed as evidence that it would make good use of the reprieve gained through further international borrowing. These measures include:

- A wide-ranging economic package designed to improve the balance of payments. Highlighted by a proposed 15-percent currency devaluation, the package also includes quotas on some consumer imports, an import deposit requirement, higher tariffs, and incentives for exports.

- Increased public capital spending and reduced subsidies, plus other steps designed to shift resources from consumption to investment.

- Attempts to restore labor discipline and to re-establish some employer prerogatives while imposing a 15-percent limit on pay increases.

- Making land expropriations conform with the agrarian reform law. To underscore his government's deter-

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mination, the Prime Minister will stress the stands taken against powerful Communist labor unions in both industry and agriculture.

Effectiveness of the Program

Soares argues, persuasively, that Portugal needs aid to pay bills while it gets the economy in order at a pace the people will tolerate. The thrust of his government's economic measures has been in a constructive direction. The economic adjustment that must be made, however, is more basic and is likely to take more time than Soares will admit.

The government must create, from the disorganization of a social revolution, a set of institutional arrangements and an economic climate in which private enterprise can thrive alongside the existing large public sector. The most promising path of development, given Portugal's 15-percent unemployment and relative scarcity of capital, would be through labor-intensive industries that do not lend themselves to large-scale nationalized operations.

The Socialist economic program is likely to yield meager results this year. Some

government measures are longer term by nature. A number of them require approval by the National Assembly, which may reject some. Other measures already enacted may not be fully implemented, and many parts of the Socialist economic program were weak from the beginning.

Finally, certain steps the government has taken to mollify public opinion—for example, increasing pension payments and unemployment compensation and continuing to subsidize some consumer staples—run counter to the effort to reduce consumption and imports.

Foreign Links

The Prime Minister, who visited Washington this week, sees Portugal's integration with the EC, its membership in NATO, and continuing close ties with the US as keys to easing Portugal's economic problems and assuring its new democratic orientation. This turn to the West is a considerable change from the policy of the previous government, whose foreign minister stressed increasing Portuguese ties with the Third World and improving relations with communist countries.

Soares' recent success in persuading the

EC to accept Portugal's application for full membership will be of more immediate consequence politically than economically. It will enhance his political stature and provide a useful rationale for structural economic changes—which could help win popular support for his economic program. Portuguese integration into the Community, however, remains a long way off.

The Prime Minister is firmly committed to NATO. He defends his support of NATO on the grounds that as long as there is a Warsaw Pact there must be a West European counterbalance. Soares also favors continued US use of the air base at Lajes in the Azores.

Outlook

Democratic forces in Portugal have come a long way since 1975, when the country seemed on the verge of a Communist dictatorship, and have made a good start in establishing democratic institutions. If Portugal can cope with its economic problems, the government can probably continue to turn things around. The direction is upward, but progress will be slow. [REDACTED]

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The support Mobutu is receiving from Morocco and other African countries will make it difficult for Angola—or Cuba—to raise the stakes in Shaba by supporting the anti-Mobutu invaders more directly.

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Zaire: Help for Mobutu

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The introduction of some 1,200 to 1,500 Moroccan troops into Zaire may prove to be a turning point for President Mobutu in his effort to repel the Katangan invaders. The help Zaire is receiving from Morocco and the expressions of support it is getting from other members of the Organization of African Unity are of psy-

chological as well as practical importance to the Zairian cause.

The first Moroccan units to arrive in Zaire's Shaba Region have been placed in defensive positions around Kolwezi, one of Shaba's principal mining centers and the next important point on the Katangans' eastward line of advance. The Moroccans reportedly intend eventually

to increase their forces in Zaire to about 3,000 men.

Although the arrival of French advisers and the shakeup in the Zairian military leadership in Shaba have produced some semblance of order among Mobutu's disorganized forces, the Zairian military is by no means able to stand on its own.

If the Moroccans can stabilize the

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Zairian troops parading in Kinshasa

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situation, complete the buildup of their forces, and go on the offensive, Angola—and perhaps Cuba—will have to weigh the risks of becoming directly involved in support of the Katangans.

Angolan Involvement

The Katangan invasion began in early March, and there is still no clear evidence of direct Angolan or Cuban involvement inside Shaba. The Katangans did launch their invasion from Angolan territory, however, and probably have been supported logistically by the Angolans since then.

Angolan President Neto probably unleashed the Katangans against Zaire because he saw Mobutu as a threat to Angola and did not believe Mobutu's disavowals of support for the insurgents in northern Angola. The Angolans almost certainly calculated that Mobutu's serious economic problems, the poor performance of his military in Angola against disciplined Cuban troops, and the long supply lines from Kinshasa to Shaba weighed heavily in favor of going ahead. Such favorable odds may have convinced the Angolans that the Katangans could accomplish what were essentially Angolan goals at very little cost to the Neto

government.

Angola must also have figured that Mobutu would not be able to secure sufficient foreign assistance to stop the Katangans and that other African countries, as well as Mobutu's friends in the West, would be unwilling to intervene in a Zairian problem so soon after the Angolan war.

Any decision to send Angolan forces into Zaire or to provide the Katangans with additional and perhaps more sophisticated equipment would presumably have to be cleared with the Cubans and perhaps with the Soviets. At this point, it is doubtful that either would want to risk having the Angolans become more directly involved in Zaire. Such involvement might endanger Soviet and Cuban priorities in southern Africa, particularly in Rhodesia.

It is unlikely, in any event, that the Angolans have the troops or leadership to support a sizable force of their own in Shaba. Angola could, however, provide the small-scale support the Katangans would need if they took to the bush to wage an insurgency.

Mobutu's Gains

Mobutu has made diplomatic if not

military progress. His appeals for help have begun to bear fruit, not only from the West and the Chinese, but more importantly from respected OAU members. Although the Moroccans have provided the only direct military assistance thus far, strong public support has come from Egyptian President Sadat, Sudanese President Numayri, and this year's head of the Organization of African Unity, Prime Minister Ramgoolam of Mauritius. Both Sadat and Numayri have hinted at possible direct aid.

Such responses from OAU members will at least reassure Africans who do not want to take sides and are nervous about the possibility of great-power involvement that the situation remains an African one. They will also make it more difficult for Angola—or Cuba—to raise the stakes.

Mobutu's fortunes may have taken a modest turn for the better in recent days, but the political repercussions of the invasion will remain a threat to his continued leadership even if the situation in Shaba is resolved in his favor. He has doubtless been weakened by public exposure of the incompetence of the military and the feebleness of the ruling political party and the regime's other institutions.

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Poland is likely to run another large hard-currency trade deficit this year that will intensify its payments problem and possibly force it to seek debt refinancing.

110-115 **Poland: Trade and Payments Difficulties**

Poland's mounting trade deficits with the West are intensifying payments problems and could force the Poles to seek debt refinancing. The underlying causes are the difficulty of cutting back on imports from the West, which are twice the value of exports, and a slowdown in major Polish exports of industrial goods due to world economic conditions.

Despite a slight recovery in exports, coupled with efforts to curb import growth, a record \$3.3-billion deficit was registered with developed countries in the West in 1976. It is apt to be almost that high in 1977.

With a rapidly rising hard-currency debt—\$10.2 billion at the end of last year—the Poles found it increasingly difficult to arrange Western loans to cover the year's current-account deficit and debt service of \$5 billion. They drew at least \$2 billion in government-backed export credits and almost \$200 million in US Commodity Credit Corporation credits. They also received \$300 million in West German payments to the Polish pension fund and concessionary credits and may have used most of a \$200-million Iranian credit extended in 1975.

The remaining financing probably was met through increased borrowing from commercial banks. As of September, Poland's net liabilities to Western commercial banks had increased by \$1 billion, to \$4.4 billion.

Despite its apparent success in obtaining funds in 1976, Poland appeared to

be under a great deal of financial pressure. Several attempts to secure additional financing were unsuccessful.

Such difficulties already have forced the Poles to try to curb imports from the West even further in 1977. The economic plan for this year calls for a total import growth of less than 3 percent. Imports from communist countries are scheduled to rise by 10 percent, indicating that the regime plans to reduce imports from the West. Polish officials have, in fact, expressed optimism about holding hard-currency imports at or below the 1976 level.

Although Poland is likely to find it difficult to cut imports from the West in 1977, the task is not impossible. A 16-percent increase in planned Soviet oil deliveries to 256,000 barrels per day should enable Warsaw to limit its purchases of Western oil. Western grain imports could be cut substantially if there is at least an average grain harvest and deliveries of at least 1 million tons of Soviet grain. Imports of Western plants and equipment will be slowed drastically by the postponement or cancellation of almost \$1.7 billion in such projects.

If the Western economies continue to recover, Polish hard-currency exports should accelerate this year, rising perhaps by 15 to 20 percent, to as much as \$4 billion. Long-term contracts already have assured Poland of markets this year for its major exports of coal, copper, sulfur, and ships. Earnings from raw material exports, however, will depend on world prices for these commodities.

Poland may have to hold back on coal

exports, as it did last year, to counteract possible consumer complaints about shortages. For the same reason, meat and live animal exports will remain depressed as Poland tries to cope with domestic dissatisfaction over persistent meat shortages. If for any reason Poland is forced to increase imports of consumer goods, its trade balance and payments position will deteriorate further.

Poland will have a trade deficit with the developed West of \$2.5 to \$3 billion even under favorable circumstances—zero import growth, a good harvest, and a 15- to 20-percent growth in exports. The Poles will probably need \$4 to \$4.5 billion in financing this year to cover the country's deficit and mounting debt repayments.

Poland can still tap part of a \$1.3-billion French credit line extended earlier this year, most of a 1976 Canadian credit worth \$500 million, and \$300 million in West German credits and pension payments. Overall, Warsaw can probably count on at least \$2.5 billion in Western government and government-backed credits. The remainder will have to be sought mainly from Western banks. Despite growing apprehensions, Western lenders probably will continue to provide Poland with funds for major projects—albeit at stiffer terms.

In the longer term, Poland cannot keep cutting hard-currency imports without disrupting its economic plans. Warsaw will try to get additional financing any way it can. Debt refinancing is also an option, particularly if domestic economic problems worsen substantially.

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